

HONG KONG

TRADE SUMMARY

In 1999, the U.S. trade surplus with Hong Kong amounted to \$2.1 billion, down slightly from last year's \$2.4 billion. U.S. imports from Hong Kong were \$10.5 billion and exports were \$12.6 billion, making Hong Kong the United States' 13th largest export market in 1999. The stock of foreign investment in Hong Kong rose to \$20.8 billion in 1998, up from \$19.3 billion in 1997. U.S. direct investment in Hong Kong is concentrated in the services and financial sectors.

OVERVIEW

On July 1, 1997, Hong Kong became a Special Administrative Region (SAR) of the People's Republic of China (PRC). Under the policy of "one country, two systems," Hong Kong is to enjoy a high degree of autonomy from the PRC in managing its trade, financial, social, legal, and other internal matters for 50 years.

Although the PRC has assumed responsibility for conducting foreign affairs and defense matters for the SAR, Hong Kong remains a separate customs territory with all of its previous border and customs arrangements. As a separate customs territory with autonomy in the conduct of its economic, trade, and financial policies, Hong Kong retains independent membership in economic organizations such as the World Trade Organization and APEC.

After slumping badly in 1998, Hong Kong's economy showed signs of recovery in the second half of 1999. The Government pegged year-end growth at 1.8 percent, up from original flat projections for 1999. The Government recorded a modest fiscal deficit of \$4.6 billion for 1999 and projects a slightly smaller deficit for 2000. Over the long term, Hong Kong enjoys a number of economic advantages, including accumulated personal wealth from several earlier years of unprecedented growth, massive fiscal and foreign exchange reserves, virtually no public debt, a strong legal system, and a strong and rigorously-enforced anti-

corruption regime. Growing competition for Hong Kong's historic role as an entrepot to the Chinese mainland and the need for restructuring of Hong Kong's advanced, high-cost, service-based economy will pose continued challenges in the years ahead, but Hong Kong is well positioned to benefit from China's WTO accession, the opening of the mainland market, and Asia's economic recovery.

INTELLECTUAL PROPERTY RIGHTS PROTECTION

Hong Kong has made significant progress over the past year in addressing the problem of copyright piracy, including creation of a new anti-piracy task force in the Customs Department that allowed a stepped-up pace of enforcement. As a result of this enforcement effort, piracy-related arrests in 1999 reached 2,701, up from 1,645 the year before. The Hong Kong courts have also begun imposing longer jail terms for violations of Hong Kong's copyright ordinance. A first-ever conviction for hard disk loading piracy has helped to discourage the previously widespread practice of retailers bundling unlicensed software with new computers. Despite Customs' success in breaking up several underground distribution and manufacturing syndicates, however, considerable amounts of pirated product remain available at the retail level throughout Hong Kong. The Legislative Council's January 2000 reclassification of piracy under Hong Kong's organized and serious crimes ordinance will provide additional tools for Customs' effort against pirate networks. However, greater efforts are needed to end criminal corporate end user software piracy. In addition, U.S. officials have encouraged Hong Kong authorities to ensure that Hong Kong's very large optical disc production capacity is used only for legitimate products. Hong Kong's recent efforts to increase liaison with mainland copyright licensing officials should help in this regard.

SERVICES BARRIERS

Opening telecommunications markets in Hong Kong was the subject of intense debate in 1998 and early 1999. Substantial liberalization has been achieved resulting in a market that

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produced dramatic reductions in consumer long-distance rates. In May 1999, the Government extended the current moratorium on additional fixed line service providers through December 2002. That decision will prolong the current arrangement in which a dominant local operator handles most residential and retail services while three recent entrants battle over the corporate market. On January 18, 2000, the Government issued five new licenses for local fixed wireless services and 12 new licenses for satellite-based external facilities. A subsequent announcement was expected to allow additional cable based external facilities. If implemented without bias towards existing providers, this opening should produce a further expansion of telecommunications services and a reduction in consumer costs.

ELECTRONIC COMMERCE

Hong Kong places great importance on its role as an info-technology and electronic commerce hub. An electronic transactions bill providing a legal framework for electronic commerce is currently pending before the Legislative Council and Government departments are being urged to offer their services to the public over the Internet. Hong Kong also is encouraging software and content developers to use the SAR as a base for operations throughout Asia.